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Grain and Feed

Annual

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Report Highlights:

Imports of wheat for MY2004 are forecasted at 455,000 MT, virtually unchanged over the past market year. The U.S. market share has decreased 40 percent for the MY2003. Both rice and corn production will be affected by adverse weather conditions, lack of rainfalls from December 2003 through February 2004 will result in delayed start of winter crop season.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Wheat imports for MY2004 (July 2004/June 2005) are forecast at 455,000 MT slightly higher than last marketing year's imports of 450,000 MT. Ecuadorian imports originated in the US have decreased in the last two years to an average of 40 percent of market share. Canada and Argentina are the two other main suppliers with Mexico making inroads into the market. The expected increase in consumption for the MY2004 will not be result of the improvement in domestic economy but rather of repatriated money from Ecuadorian emigrants. Production of tilapia will determine the increased demand for wheat products in the near future.

Corn production for MY2003 (October 2003/September 2004) is expected to decrease due to the current drought, which began in December 2003 through February 2004. Corn production is placed at 250,000 MT. However, corn consumption has increased as poultry and shrimp industry demands additional corn and soybean meal, main ingredients for feed meal compound. Corn imports will reach 360,000 MT to meet local demand. For MY2004 (October 2004/December 2005) post forecasts an increased demand of corn to 550,000 MT and corn imports placed at 340,000 MT in turn to meet increased demand.

Production of rice for the upcoming MY2004 (January 2004/December 2004) will trend downwards to 390,000 MT as at least 30,000 hectares have been affected by the current drought. Imports are expected to occur shortly to fill the gap in stocks for April this year. In spite of that, the Minister of Agriculture of Ecuador has stated that Ecuador will not import rice, but if imports are needed, at least 65,000 MT of paddy rice will be imported. No official statistics exist regarding exports of rice from Peru into Ecuador, however, it seems that some rice was smuggled from Peru totaling 120,000 MT milled basis. For MY2004, post forecasts 40,000 MT of rice will be smuggled from Peru into Ecuador.

Wheat

PSD Table							
Country	Ecuador						
Commodity	Wheat						
					(1000 HA)(1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2002		07/2003		07/2004	MM/YYYY
Area Harvested	19	20	18	19	0	18	(1000 HA)
Beginning Stocks	75	49	75	68	76	75	(1000 MT)
Production	12	13	11	12	0	12	(1000 MT)
TOTAL Mkt. Yr. Imports	450	456	450	450	0	455	(1000 MT)
Jul-Jun Imports	450	456	450	450	0	455	(1000 MT)
Jul-Jun Import U.S.	193	210	0	180	0	250	(1000 MT)
TOTAL SUPPLY	537	518	536	530	76	542	(1000 MT)
TOTAL Mkt. Yr. Exports	20	0	20	0	0	0	(1000 MT)
Jul-Jun Exports	20	0	20	0	0	0	(1000 MT)
Feed Dom. Consumption	40	15	40	15	0	15	(1000 MT)
TOTAL Dom. Consumption	442	450	440	455	0	460	(1000 MT)
Ending Stocks	75	68	76	75	0	82	(1000 MT)
TOTAL DISTRIBUTION	537	518	536	530	0	542	(1000 MT)

Production

Ecuador produces very little wheat and it is not commercially significant, about 12,000 MT or less a year, 4 percent of Ecuador's annual consumption. According to Ecuador's industry, subsistence farmers use most of the domestic production and it is not sold to millers. A small amount of domestic production is sold for the local feed compound industry. Wheat production in Ecuador is a non-profitable business due to the adverse geographic and weather conditions, lack of improved seeds, lack of technology, with yields averaging 700 Kg. per hectare. For the upcoming year it is forecasted a planted area of 18,000 hectares with a production of 12,000 MT, and there are no possibilities to increase either the area cultivated or the yields.

Consumption

Wheat for human consumption has been increasing steadily, in spite of increase prices on the international markets for wheat. However, wheat for animal consumption has been decreasing slowly in last years, but we expect consumption for feed uses at 15,000 MT. Various wheat millers sources have indicated that consumption for upcoming marketing year will slightly increase given the increase of revenues to Ecuador from emigration of Ecuadorians to the United States and Europe, which is roughly calculated in \$1.5 billion. It is forecasted that for the upcoming marketing year 2004/2005 (July 2004/June 2005) total domestic consumption to increase to 460,000 MT, a slightly increase compared with MY 2003 of 455,000 MT. The increase in consumption for MY 2004 will not be the result of an

improvement in domestic economy, but rather of repatriated money from Ecuadorian emigrants. Production of tilapia will determine the increased demand for wheat products in the near future.

Trade

Imports originating from the US have decreased for the last two years post estimates imports of wheat of 180,000 MT for MY 2003, a reduction compared to 210,000 MT for MY2002. Canada is the main U.S. competitor in the Ecuadorian market. Ecuadorian wheat millers perceive Canadian wheat of better milling quality. Sometimes for same price, Canadians provide wheat with higher protein content of 14 percent, higher gluten content averaging 40 percent, and less foreign materials. In addition, Canada has developed an aggressive marketing such as providing Ecuadorian importers from the Canadian Commercial Corporation (CCC) to finance wheat imports with 14 million dollars. The CCC has contracted with one of the Ecuadorian miller to provide nearly all of their wheat. Post has forecasted an increment of importation of wheat from the US, assuming a donation of 21,000 MT of wheat and a recovery of the market share for US wheat. USWheat Associates is planning to develop activities with Ecuadorian millers by providing technical assistance on how to obtain the same product with less cost, such as bread by using wheat of less protein content. This may encourage Ecuadorian millers to prefer US wheat. Surprisingly, Mexico made some inroad in the Ecuadorian market with 6,100 MT. Ecuadorian wheat millers buy Argentinean wheat, which is of lower quality than American wheat, to blend or mix with Canadian or American wheat. Imports from the US under donations or concessional sales in CY2002 accounted for 81,000 MT. For FY2004, wheat donations of 21,000 MT are planned to enter in Ecuador under Food for Peace Program, this quantity is included in MY2004 imports of 250,000 MT from the United States.

Ecuador has a small export market for wheat flour and finish products to Ecuador neighbors equivalent to 5,000 MT of wheat.

Import Trade Matrix			
Country	Ecuador		
Commodity	Wheat		
Time Period	Jan-Dec	Units:	Metric Tons
Imports for:	2002		2003
U.S.	222237	U.S.	170000
Others		Others	
Canada	198236	Canada	247000
Argentina	33110	Argentina	17490
Pakistan	8800	Mexico	6100
Total for Others	240146		270590
Others not Listed			
Grand Total	462383		440590

Policy

Bread, noodles and pasta continue to be popular foodstuffs in Ecuador, thus the government monitors these prices very closely in order to control inflation. In CY2003 wholesale prices for wheat flour averaged \$20 to \$22 per 50 Kg. bag and retail prices at \$22 to \$23.50 per 50 Kg. bags. However, prices of wheat flour are controversial, since some wheat millers have reduced prices to \$19 per 50 kg. Bag, which according to some wheat millers is less than cost of production, which has been constantly increasing due to increased price of transportation, averaging \$35 per MT, at Guayaquil Sea Port.

The government of Ecuador abandoned the price band system for wheat in July 2001, and the tariff rate for this product was set at 10 percent. However, in August 2003, in order to comply with commitments under the Andean region, Ecuador was forced to go back to Price Band system with 10 percent tariff rate plus and additional variable levy, depending on the reference price, i.e., the variable levy increases as the reference price goes down the floor price or the variable levy decreases as the reference price goes up the ceiling price. Due to high prices for wheat in the international market, the reference price for wheat is set at \$186 per MT, being the floor price \$147.0 and the ceiling price at \$164.0. As a consequence of that, ad-valorem CIF tariff rate has been reduced to zero percent for wheat.

Corn

PSD Table							
Country	Ecuador						
Commodity	Corn						
					(1000 HA)(1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2002		10/2003		10/2004	MM/YYYY
Area Harvested	170	120	170	110	0	150	(1000 HA)
Beginning Stocks	37	80	26	107	41	107	(1000 MT)
Production	280	280	300	250	0	300	(1000 MT)
TOTAL Mkt. Yr. Imports	304	337	350	360	0	340	(1000 MT)
Oct-Sep Imports	304	337	350	360	0	340	(1000 MT)
Oct-Sep Import U.S.	176	204	0	250	0	270	(1000 MT)
TOTAL SUPPLY	621	697	676	717	41	747	(1000 MT)
TOTAL Mkt. Yr. Exports	70	80	60	70	0	90	(1000 MT)
Oct-Sep Exports	70	80	60	70	0	90	(1000 MT)
Feed Dom. Consumption	450	490	500	530	0	550	(1000 MT)
TOTAL Dom. Consumption	525	510	575	540	0	560	(1000 MT)
Ending Stocks	26	107	41	107	0	97	(1000 MT)
TOTAL DISTRIBUTION	621	697	676	717	0	747	(1000 MT)

Production

Corn production in Ecuador will be estimated to be 250,000 MT in MY2003 on 110,000 hectares, which includes the southern hemisphere summer crop (October-December 2003) and the upcoming winter crop (April- July 2004). Adverse weather conditions, during the current seasons, drought during December 2003 to February this year will affect and delay the planted and harvested area mainly in the Los Rios province, where at least 35 percent of total corn is produced. FAS office has revised harvested area figures both for MY2002 and MY2003 from 170,000 hectares to 120,000 hectares and 110,000 hectares, respectively; however, production figures for MY2002 will remain the same in light of available updated information of yields (about 2.2-2.3 MT/hectare) for these marketing years, explained by the fact of use of better seeds. For the upcoming market year, production is forecasted at 300,000 MT on 150,000 hectares, assuming that next summer crop (October-December 2004) will be affected by the current drought i.e., less moisture of the soil to planting corn, and also assuming a normal rainfalls (December 2004 to February 2005) for winter crop season (April-July 2005). If that occurs farmers will be encouraged to plant corn in winter season, when 90 percent of the total production is harvested. Yellow corn production, which is totally used for feed compound industry, has been consistently decreasing since 1997 when it reached a 638,000 MT. The decreased production in last years is a result of adverse weather conditions, lack of incentives in financing crops, lack of technical assistance, low yields, and an inefficient marketing system.

Consumption

Corn consumption depends on the national animal feed-poultry and shrimp production, as main inputs for feed meal compound, 94 percent of yellow corn consumption in Ecuador is devoted to feed meal compound industry. However, domestic yellow corn production has not kept pace with the increased demand of corn for feed industry. Ecuador has a 99 million chicken-per-year poultry market and a production of 155,000 MT of poultry meat a year. By the same token, Ecuador produces 55,000 MT of eggs a year. The feed meal compound industry in Ecuador has increased in the last decade from 608,000 MT in 1993 to 1,400,000 MT in 2003. Feed meal compound is foreseen to increase for the CY2004 to 1,500,000 MT, which in turn means an increment of corn and soybean meal consumption. The feed meal compound industry in Ecuador currently demands 500,000 to 530,000 MT of corn annually. Post forecasts for MY2004 an increase in demand to 560,000 MT, as a consequence of a foreseen increase of poultry meat production to 160,000 MT. Poultry meat is a cheaper source of protein in the Ecuadorian diet, compared to red meat. Exports of poultry meat to Colombia have decreased due to the increased prices of poultry meat in Ecuador compared to Colombia prices.

Trade

In MY2003 (October 2002-September 2003) Ecuador imported 360,000 MT of yellow corn, of which 250,000 originated from the USA, and the remaining came from Argentina. In spite of higher prices of US corn compared to the Argentina corn prices, Ecuador prefers to import corn from the US, due to the better quality of the product, in terms of less foreign material. Ecuador is a net corn importer since local production is unable to meet local demand. However, Ecuador exports corn to Colombia where corn is better priced. In CY2003, Ecuador exported 70,000 MT of yellow corn, in the peak of the winter crop season (May-June), when Colombia is not producing corn. It is forecast to export to Colombia 90,000 MT for CY2004. Farmers will take advantage of the market in Colombia at the same time it will maintain corn prices high in the local market.

Ecuador officially announced through a Ministerial Agreement from the Ministry of Agriculture in September 2003 the importation of 350,000 MT of corn, which is included in the MY2003 figure. However, due to adverse weather conditions, drought December - January, some planted areas were affected, as that likely the allowed importation is expected to be short. Sources from feed meal compound industry have reported that Ecuador will need to import corn, but there is no decision from the government to allow additional importations of corn. For the upcoming market year 2004 (October 2004- September 2005) post forecasts 340,000 MT of imports, of which 270,000 MT will likely be originated in the United States. The US share market remains strong at 75 to 80 percent, with Argentina as a main competitor.

Import Trade Matrix			
Country	Ecuador		
Commodity	Corn		
Time Period	Jan-Dec	Units:	Metric Tons
Imports for:	2002		2003
U.S.	286433	U.S.	231477
Others		Others	
Argentina	81002	Argentina	124804
Colombia	11712		
Total for Others	92714		124804
Others not Listed	2031		
Grand Total	381178		356281

Policy

Corn imports are assessed 15 percent ad-valorem import duties on CIF basis, plus a variable levy applied under the price band system. Currently, tariff rates for corn are placed at 15 percent, with minus 9 percent variable levy, since the CIF reference price set at \$143 per metric ton is above the ceiling price of \$132 per metric ton.

Although the government of Ecuador does not provide any formal subsidy or assistance program to promote yellow corn production, the Ministry of Agriculture, through the Consulting Committee, supports agreements between corn producers and feed meal compound industry to encourage corn production by assuring farmers both a price at the international level and the absorption of the local corn harvest. Sometimes, the corn prices paid to local farmers are higher than prices of imported corn, including CIF price. As an

example, as of January 2004 farmers are paid \$165.28 per metric ton, while the cost of corn imported in the country is \$161.09 per metric tons.

Rice

PSD Table							
Country		Ecuador					
Commodity		Rice, Milled					
	Revised	2002	2003	Estimate	2004	Forecast	UOM
	Post Estimate [New]	USDA Official [Old]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin	01/2002			01/2003		01/2004	MM/YYYY
Area Harvested	244	244	240	230	0	210	(1000 HA)
Beginning Stocks	168	168	169	138	159	98	(1000 MT)
Milled Production	450	450	440	420	0	390	(1000 MT)
Rough Production	726	726	710	677	0	629	(1000 MT)
MILLING RATE (.9999)	6200	6200	6200	6200	0	6200	(1000 MT)
TOTAL Imports	15	25	10	120	0	90	(1000 MT)
Jan-Dec Imports	10	10	5	120	0	90	(1000 MT)
Jan-Dec Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	633	643	619	678	159	578	(1000 MT)
TOTAL Exports	55	74	55	130	0	40	(1000 MT)
Jan-Dec Exports	55	55	85	130	0	40	(1000 MT)
TOTAL Dom. Consumption	440	400	405	450	0	456	(1000 MT)
Ending Stocks	138	169	159	98	0	82	(1000 MT)
TOTAL DISTRIBUTION	633	643	619	678	0	578	(1000 MT)

Production

Weather conditions and rainfalls have followed abnormal patterns. Winter crop season for rice is dependable from rains during December, January and February. As of February, the drought is affecting the current rice crop season. As a consequence, the peak of harvest season is expected to come late this year by June-July with first harvest not beginning until late March or April. Farmers are still waiting normal rainfalls to start sowing and planting rice. This circumstance will determine that Ecuador will likely be short in rice and will need of some imports of rice. Post forecasts total milled rice production for MY2004 (January 2004/December 2004) at 390,000 MT milled basis on 210,000 hectares, which is less than previous year's revised figure of 420,000 MT of milled rice on 230,000 hectares. Post estimates at least 30,000 hectares of rice are definitely lost due to lack of rainfalls.

Consumption

Rice is a staple food of all Ecuadorians for three meals a day. The per capita consumption, as a revised figure, ranges 36.5 to 38 Kg. per month (lower than Peruvian consumption of 52 Kg, Colombia of 41 Kg, Brazil of 53 Kg.). However, these figures are controversial depending on which is the purpose and who handles the information. Ecuador's domestic rice

consumption is forecasted to reach 456,000 MT of milled rice per year for the MY2004, about 38,000 MT per month (milled basis), explained by the fact of a modest recovery of purchasing power. Rice is sold traditionally in markets, weighed and bagged from 45.36 kilos sacks. However, as a result of the expansion of supermarkets chains in the main cities of Ecuador, consumption habits of marketing have started changing. It is calculated that 10 percent of rice is sold in bags of 2 kg. or 5 kg. with brand name.

Trade

Ecuador exported about 60,000 MT of milled rice to Colombia in CY2003 owing an agreement between rice farmers and rice industries both in Colombia and Ecuador. Most of these exports were made by road. However, it seems that black market of rice from Ecuador into Colombia have occurred totaling exports 130,000 MT of milled rice. Post has been informed by rice millers industry that exports to Colombia under the agreement were scheduled for April-June 2003; but in reality the window for exports were reduced to three weeks in June. For CY2004, Colombia through a Decree 3724 has established a minimum tariff rate quota for rice imports of 75,118 MT of paddy rice, but the minimum TRQ can be increased depending on Colombia's needs and subject to approval by the Ministry of Agriculture. Lately, Colombia has increased its TRQ to 180,000 MT, paddy basis. According to Ecuadorian rice industry, Ecuador will be ready to export milled rice to Colombia, but that depends on the availability of rice from the winter crop season (April-July), which Ecuador will likely be short. In the PS&D table, post has forecasted 40,000 MT of milled rice exported to Colombia in CY2004, including black market from Ecuador into Colombia.

There are no official statistics that track informal trade, post estimates that about 120,000 MT of rice-milled basis of Peruvian rice have been smuggled to Ecuador in 2003. Post forecast imports at 90,000 MT for CY2004, including black market from Peru. If the current winter harvest of rice comes late, Ecuador is to import milled rice to cover the shortage of rice for April 2004, estimated at 65,000 MT of rice paddy basis. In spite of that, the government, through the Minister of Agriculture, has stated that Ecuador will not import rice. This is based on the argument that there is enough rice for these months, which are located in the mill plants, or storage by dealers, but the price of rice in retail market has increased in January from \$21-22 to \$24-26 per hundredweight.

Policy

Rice imports are very sensitive issue in Ecuador. The Government of Ecuador is pushing a self-sufficiency program for rice by implementing a price band system and controlling imports. A Consulting Committee on rice, consisting of producers, millers and government officials decide on the timing and quantity of rice imports. Tariffs for rice are at 20 percent for non-Andean Community nations and zero to CAN nations. The variable levy is currently at zero.